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Media Relations Office

Washington, D.C.

Media Contact: 202.622.4000

[www.irs.gov/newsroom](http://www.irs.gov/newsroom)Public Contact: 800.829.1040

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## **Credit Available for Taxpayers Who Purchased or Leased A Wide Range of Hybrid Models In 2007**

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Taxpayers who purchased or leased to others a hybrid passenger automobile or light truck in 2007 must take care when determining whether they qualify for the Alternative Motor Vehicle Credit because the credit amount varies, or may not be available, depending on the manufacturer, and when the vehicle was purchased.

Taxpayers may claim the credit on their 2007 tax returns only if the qualified hybrid vehicle — powered by both an internal combustion engine and a rechargeable battery — was placed in service in 2007. For hybrid passenger automobiles or light trucks purchased in 2008, taxpayers may be entitled next year to a tax credit worth as much as \$3400 for the most fuel-efficient models.

Original purchasers of qualified hybrid passenger automobiles or light trucks may claim the full amount of the allowable credit only up to the end of the first calendar quarter after the quarter in which the manufacturer sells 60,000 hybrid passenger automobiles and light trucks and new advanced lean burn technology motor vehicles.

The credit was limited in the 2007 tax year for hybrid passenger automobiles and light trucks and new advanced lean burn technology motor vehicles manufactured by Toyota Motor Sales, USA, which includes Lexus, that were purchased on or before Sept. 30, 2007. The credit is unavailable in the 2007 tax year for Toyota hybrid passenger automobiles and light trucks and new advanced lean burn technology motor vehicles purchased after Sept. 30, 2007. The credit is not available for Toyota hybrid passenger automobiles and light trucks purchased in 2008.

Also for 2008, the credit for hybrid passenger automobiles and light trucks and new advanced lean burn technology motor vehicles manufactured by American Honda Motor Company, Inc, will begin to phase out.

The credit amount and purchase date limit for qualified hybrids can be found on IRS.gov:

- [Model year 2008](#)
- [Model year 2007](#)
- [Model year 2006](#)
- [Model year 2005](#)

## **Credit Phase-Out Depends on Vehicle Sales**

The phase-out period for a manufacturer begins with the second calendar quarter after the calendar quarter in which the manufacturer records its 60,000th sale of qualified hybrid passenger automobiles and light trucks and new advanced lean burn technology motor vehicles. For the second and third calendar quarters after the quarter in which the 60,000th vehicle is sold, taxpayers may claim 50 percent of the credit. For the fourth and fifth calendar quarters, taxpayers may claim 25 percent of the credit. For quarters after that fifth quarter, taxpayers may not claim the credit.

The purchase date determines the amount of credit for which a hybrid passenger automobile or light truck or a new advanced lean burn technology motor vehicle is eligible, but the date the vehicle is placed in service determines when the credit can be claimed for the vehicle. Purchasing and ordering a hybrid vehicle is not enough to claim the credit. The vehicle must be placed in service as well.

## **Used and Leased Vehicles**

A consumer that leases a hybrid vehicle is not eligible for the credit. The credit is allowed to the vehicle owner, including the lessor of a vehicle subject to a lease. That means that the lessor (the person who leases the vehicle to the consumer) is the person who can claim a credit for the vehicle.

A credit for a hybrid vehicle can only be claimed by the original purchaser of the vehicle, that is, the purchaser of a new vehicle. The credit does not apply to a used hybrid vehicle.

## **The Credit and the Alternative Minimum Tax**

Also the Alternative Motor Vehicle Credit cannot be used to offset the Alternative Minimum Tax (AMT). A taxpayer cannot claim the credit unless the taxpayer's regular tax liability exceeds the taxpayer's AMT liability.

Even if a person is not subject to the AMT, he may not be able to claim the maximum allowable credit, or any credit, for the qualified vehicle that is purchased. The amount of the credit that one can claim depends on the particular facts and circumstances.

For example, A, B and C each purchase the same make, model, and model year of qualified hybrid motor vehicle to use as their personal vehicles. At the time that A, B and C purchase their vehicles, the maximum allowable credit for the vehicle is \$3,150. A, B and C each have regular tax of \$12,000 for the taxable year in which they purchase their vehicles. A's tentative minimum tax is \$8,000, B's tentative minimum tax is \$11,000, and C's tentative minimum tax is \$12,000. Because A's regular tax (\$12,000) exceeds A's tentative minimum tax (\$8,000) by \$4,000, A can claim the maximum credit allowable for the qualified hybrid vehicle that A purchases. Because B's regular tax (\$12,000) exceeds B's tentative minimum tax (\$11,000) by only \$1,000, B can claim a credit of only \$1,000 for the qualified hybrid vehicle that B purchases. Because C's regular tax (\$12,000) does not exceed C's tentative minimum tax (\$12,000), C cannot claim any credit for the qualified hybrid vehicle that C purchases.

Also, if you claim the credit as a personal credit, the tax code limits the amount of the credit that you may claim to the amount of your regular tax liability. Therefore, if your regular tax liability is zero, the amount of the credit for which you are eligible will be zero. The credit cannot be used to reduce your regular tax liability below zero, and cannot be carried forward or back to another taxable year.

If the vehicle that you purchase is subject to the allowance for depreciation, then the credit is part of the general business credit and the rules applicable to the general business credit apply.

### **Sales to Tax Exempt Entities**

A person who sells a qualified vehicle to a tax-exempt person or entity and makes a required disclosure can claim the credit. The tax code provides that in the case of a vehicle that is used by a tax-exempt person or entity and is not subject to a lease, the person who sold the vehicle to the tax-exempt person or entity is treated as the taxpayer that placed the vehicle in service. The amount of the credit allowable with respect to the vehicle must be disclosed in writing to the tax-exempt person or entity.